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CANADA AT WAR

A SUMMARY OF CANADA'S PART IN THE WAR

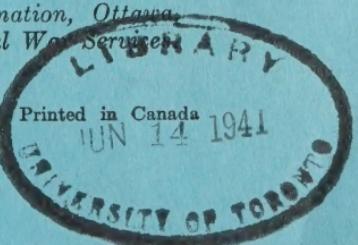
Revised to June 1st, 1941

This material has been prepared by the Office of the Director of Public Information. It is the third in a series of monthly releases, and is intended to serve as source material for speakers and those who ask for up-to-date information about Canada's participation in the war. It will be revised monthly and will contain the most recent of available facts and figures.

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GENERAL SUMMARY

Canada entered the war on September 10, 1939. Although at that time she was a relatively weak military power, in the ensuing twenty-one months she has built a war machine the actual and potential strength of which is very considerable.

During the years 1936-39 action was taken to modernize and expand the Canadian armed forces and to prepare measures for the defence of Canadian territory. The 1939 estimates provided about \$64,500,000 for the three Services, by far the largest sum ever allocated in Canada for defence in time of peace. Nevertheless the steps which were taken during this pre-war period were limited by a peace-time budget. Canada entered the war with armed forces whose size was insignificant in comparison with those of European nations, and her industrial plant was operating almost entirely on a peace-time basis.

Since the outbreak of war Canada has diverted an ever-increasing portion of her resources, both human and material, into her war effort. The 1941-42 budget provides between 35 per cent and 40 per cent of the national income for war. More than a quarter million Canadians are serving in the active armed forces abroad and at home. These men have been enlisted on a voluntary basis for the duration of the war and will serve wherever required. In terms of the population of the United States, the number of men in the Canadian Navy, Army and Air Force would be equivalent to an armed strength in the forces of the United States of over two and three-quarter million men, and this without taking account of a reserve army for home defence. Moreover, Canada's industrial capacity has very largely been turned over to war production in the months since the outbreak of war.

Canada's war plans for the balance of this year have been made on the basis of consultations held early this year with the heads of Britain's Navy, Army and Air Force, with Prime Minister Churchill and with other high officials in Britain. Canadian ministers told these officials that Canada's object is a full-out contribution with everything Canada has and as fast as she can give it.

CANADA IN THE THEATRES OF WAR

Canada, as an active belligerent, has sent sailors, soldiers, airmen, and naval units to the British Isles and to other strategic parts of the world. More than 80,000 Canadian sailors, soldiers and airmen are now overseas. Of these about 70,000 are soldiers, most of whom are in Britain where they guard a vital sector. Others are in Newfoundland, the Caribbean and Gibraltar. Large numbers of Canadian airmen and one thousand radio technicians have already arrived in Britain to play their part in the air war.

Canadians in the R.C.A.F. and in the R.A.F. have so far accounted for about 200 enemy planes. Several Canadian naval vessels are operating in British waters and others patrol many parts of the seven seas. Since the outbreak of war, the Royal Canadian Navy has captured several enemy vessels and has convoyed Atlantic shipping carrying a total of more than twenty-seven million tons. Many hundred of Canadians are serving with the Royal Navy.

More than 800 Canadian sailors, soldiers and airmen have been listed as killed or missing since the outbreak of war. In addition a considerable number of Canadians serving with British forces have given their lives. Many Canadians have been decorated and mentioned in despatches.

This year Canada will send overseas an armoured corps, a tank brigade, the 3rd Canadian Division, and reinforcements for units already there. Contingents of airmen arrive regularly and the flow will increase steadily in volume as the months go on. About 2,500 more radio technicians will go overseas this year. Canadian naval assistance will steadily increase.

THE NAVY

The Royal Canadian Navy went into action the moment that Canada entered the war. Since that time, in addition to the work it has done in British and other non-Canadian waters, it has provided Canada's shores with naval protection, and it has taken various measures to guard Canadian ports.

The Navy has grown very rapidly. At the beginning of the war its strength was about 3,600 men and it had 13 ships of all kinds. To-day its strength is more than

17,500 men and it musters more than 200 vessels—including 13 destroyers, three armed merchant cruisers, a number of corvettes and minesweepers and a large number of smaller craft suitable for patrol and anti-submarine work. About 9,000 men are to be enlisted in the Navy in the current year and the Navy's strength by March, 1942, is expected to be about 27,000 men and over 400 ships.

THE ARMY

At the beginning of the war Canada had a Permanent Force of some 4,500 men and a Non-Permanent Active Militia of about 55,000. The Permanent Force is now known as the Canadian Army (Active) and the Non-Permanent Militia is now known as the Canadian Army (Reserve). There are now about 188,000 men in the Active Army—recruited on a voluntary basis to serve wherever required for the duration of the war—and about 170,000 men in the Reserve Army.

About 72,000 men are to be added to the strength of the Active Army during the current year, and about 32,000 of these are to be recruited within the next two months. In the coming year about 40,000 additional men will be made available for home defence duties after completing a period of four months' training. The exact total will depend on the number of men called up in each monthly quota. The first group numbered nearly 5,000. Each class to graduate monthly, beginning in July, will release soldiers now on active service in Canada for overseas duty.

Nearly half of Canada's estimated direct war expenditure in the present fiscal year will be devoted to the Army. While first consideration has necessarily been given to the equipping of Canadian overseas forces and to sending material to Britain, the Canadian Army at home is receiving a steadily increasing flow of equipment.

THE AIR FORCE

The strength of the Royal Canadian Air Force is to-day more than ten times what it was at the outbreak of war, and about 35,000 additional men will be added to the Air Force during the current year.

The British Commonwealth Air Training Plan, first announced in December, 1939, has expanded very rapidly to keep pace with the urgent demands of the war. It is

now turning out thousands of pilots, gunners, and observers at about twice the rate originally planned for this time. The Plan now operates 62 schools from coast to coast and it is expected that by September of this year 83 schools will be operating.

The estimated cost of the Air Training Plan is now \$824,000,000, of which amount Canada will supply \$531,000,000. Canada provides 80 per cent of the students, and of this number it was recently estimated that between 7 per cent and 10 per cent are Americans.

In addition to despatching men overseas, the R.C.A.F. is a powerful factor in Canadian defence. Its planes patrol Canadian coasts daily.

MUNITIONS AND SUPPLY

Building a War Industry

Practically every Canadian factory that can produce for war is now doing so directly or indirectly. Many new factories have been built and old ones expanded and provided with new equipment. Since the war began the British and Canadian Governments have underwritten capital advances of some \$425,000,000 for this purpose. This sum approximates the total invested in industry in Montreal and Toronto, the largest cities in Canada.

Construction

This undertaking, on which about \$300,000,000 has already been expended, has involved tremendous construction activity. The number of construction contracts awarded during the first two months of this year was nearly 150 per cent greater than the number awarded in the first two months of 1940; the number awarded in 1940 was about 85 per cent greater than the number awarded in 1939. In addition to industrial work, the construction industry has undertaken a \$110,000,000 defence building program, under which several thousand buildings and over 100 air fields have already been completed.

Apart from this essential work, construction activity is now being concentrated on providing low-cost dwellings for war workers. Wartime Housing Limited is carrying out a building program in Halifax and in eight crowded Ontario communities. The accommodation is to be temporary in character and will be rented to the occupants.

Production

Although construction and tooling up constituted Canada's main industrial war effort during the first year of the war, Canadian industry in the past months has been turning out an impressive amount of war equipment and essential supplies.

Shipbuilding, Shipping and Ship Repairs

Shipbuilding has increased tremendously in Canada. At the beginning of the war there were only 1,500 men employed in Canadian shipyards. Now over 20,000 workers are employed in 17 major and 45 smaller yards. To-day the shipbuilding program involves an expenditure of upwards of \$120,000,000. Some 235 ships have been ordered, not including small craft, and 102 have either been delivered or launched.

They include corvettes, minesweepers, auxiliary cruisers and vessels converted to naval use. Twenty-four patrol boats and twelve special minesweepers have been ordered.

Deliveries are being made constantly under the \$6,500,000 small-boat program which is now over 40 per cent complete and includes the construction of hundreds of craft ranging from pulling boats to fast torpedo boats. The Canadian merchant-shipbuilding program is to be extended also to include the construction of over 100 freighters of the 10,000-ton class.

Canada is taking steps to co-operate with the United States in a plan to release Great Lakes ships to take the place of coastal freighters needed for transatlantic service. A survey is being made for the Canadian Shipping Board to determine how many of such vessels can be spared.

Canadian ship-repair facilities are being stepped up to a maximum to assure a rapid turn-around for merchant shipping and to provide quick repairs for ships of war.

Manning pools to provide groups of experienced merchant seamen at short notice will shortly be established to facilitate merchant ship movements.

Aircraft

Since the beginning of the war over 1,500 aircraft have been produced in Canada and about 40 planes a week are now being turned out. The Canadian aircraft industry has now supplied the British Commonwealth Air Training

Plan with most of the primary trainers which it needs at present, and the industry is now turning more to the production of advanced trainers and service craft of the heavy bomber type. For example, Harvard trainers are now being turned out, 39 PBY flying boats were recently ordered and orders for 200 Martin B-26 medium bombers are now being negotiated. Engines for all planes produced in Canada are imported.

Automatic Weapons

The production of automatic weapons in Canada is reaching gratifying proportions. One Canadian factory, which began production of Bren guns before the war and is now manufacturing much ahead of schedule, will soon have the largest output of any automatic gun plant in the world. An \$8,000,000 plant to manufacture automatic guns for aeroplanes is to be built. It will be about one-third the size of the Bren gun plant.

Guns

Fourteen types of land and naval gun, including latest type of anti-aircraft and anti-tank guns, and ten types of mountings, are now being made or are soon to be made in Canada. Mortars are now being turned out, and 25-pounders are in production. Anti-aircraft gun barrels are being produced in quantity.

Chemicals and Explosives

Ten of Canada's nineteen chemicals and explosives projects have begun to produce. Four more will be in production by the middle of the year. One of these plants is equal in size to the largest similar plant in the British Empire. Total production of explosives this year should exceed the entire Canadian output during the first Great War. Twelve types of chemicals and eight types of explosives are being turned out.

Small Arms Ammunition

Small arms ammunition factories are producing tens of millions of rounds monthly and are capable of increasing production, should this be necessary.

Shells

Shells and shell components are being produced in many factories well up to schedule. Nine types of gun

ammunition are now being turned out at the rate of millions of rounds a year. Aerial bombs and rifle grenades are being turned out. One bomb factory, which has been producing for three months, is expected to turn out 100,000 500-pound bombs a year.

Army Vehicles

190,000 army mechanical transport vehicles have been ordered in Canada and more than 100,000 of these have been delivered and are in service. They include universal carriers and a variety of truck and transport. The majority were exported to Britain and Empire countries. They were used to a great extent by British forces against the Italians in Libya.

Tanks

Canada's first infantry tank has been turned out, and armour plate of a high quality is now being made for production of two types of tank in Canada. The tank program calls for the production of 800 infantry tanks and about 1,000 cruiser tanks.

Steel

Steel production has increased tremendously in Canada. The 1935-1938 average was 1,300,000 tons a year. It is now estimated that production is at the rate of 2,250,000 tons a year.

Alloys

Production of alloys is ten or twelve times the pre-war level.

Minerals

Canada's mineral output in 1940 was 11·5 per cent greater than in 1939 and constituted a record. This mineral production provides supplies of nickel, zinc, copper, aluminum, lead, and other metals, most of which are vital to mechanized warfare.

Personal Equipment

Canada has produced a tremendous amount of personal equipment for her armed forces. This equipment includes more than 100,000 separate and distinct kinds of articles.

Orders to the value of almost \$100,000,000 have been placed for the equipping and maintaining of Canadian forces.

Miscellaneous

A few of the items now being manufactured in Canada that were not made in this country before the war include field telephones, special wireless equipment, a variety of naval stores, compasses, chemicals for laying smoke screens, chain cable, anti-gas clothing, gas masks and parachutes.

Depth charges and anti-tank mines are on order.

The Department of Munitions and Supply

The Department of Munitions and Supply, under which this program has largely been carried out, has expanded tremendously since its inception. The number of employees in the Department has increased from 300 in April, 1940, to 1,700 to-day.

Orders Placed by the Department

The total of orders on British and Canadian account placed since July, 1939, now totals over \$1,500,000,000.

AID TO BRITAIN

Munitions and Supplies

Since the outbreak of war Canada has sent supplies in increasing quantities to Britain. Canadian exports to Great Britain in the twelve months ending March 31, 1941, were 45 per cent greater than in the twelve months ending March 31, 1940, and during the succeeding twelve months it is expected that Canada will export goods to Britain to the value of about \$1,500,000,000. Supplies sent to Britain to date include large quantities of foodstuffs, raw materials such as base metals and timber, and war equipment such as shells, gun barrels, universal carriers, machine guns, explosives and chemicals, aeroplanes, corvettes, minesweepers, and mechanized transport.

Financial Aid

Canada has financed about two-thirds of Britain's deficit with Canada to date and will finance the bulk of her expenditures in Canada in the coming months. Up to March 31 of this year, Britain's deficit in her balance of

payments with Canada was about \$795,000,000. Of this amount only 31·4 per cent was met by the transfer of gold to Canada. By repatriating Canadian securities held in Britain and by accumulating Sterling balances in London, Canada financed the remainder. Britain's deficit with Canada during the present fiscal year is expected to be about \$1,150,000,000 and Canada has assured Britain that she is prepared to meet the bulk of that deficit. The amount of money which Canada will have to provide for this purpose in the present fiscal year is estimated to be between \$800,000,000 and \$900,000,000.

Tariff Reductions

Canada has recently further assisted Britain by substantially reducing the tariff on British goods exported to Canada.

Economic and Military Co-operation

Economic and military co-operation between Great Britain and Canada through diplomatic and trade channels, by means of personal visits by officials and experts back and forth across the Atlantic, and through various boards established by both governments, is extremely close. Prices of foodstuffs, raw materials and war equipment purchased by Britain are kept at reasonable levels, and the Canadian Government, acting as purchasing agent for Britain, buys at the lowest possible prices and, of course, makes no profit on anything it buys in Canada on British account.

Canada pays for the equipment and upkeep of her forces overseas.

Canadian Civilians in Britain

Many Canadian civilians in Britain have been giving valuable assistance to Britain's cause. Canadian-born Lord Beaverbrook, until his recent appointment, was assisted in speeding aircraft production by three prominent Canadians, one of whom is Rt. Hon. R. B. Bennett, former Prime Minister of Canada. Other Canadians are serving in Canadian hospitals in England, in British medical centres, in canteens and in a variety of occupations. Canadian-born Sir Edward Peacock is at present undertaking an important financial mission in the United States on behalf of the British Government.

Britain's Opinion of Canada's Contribution

Recent statements in British newspapers and by responsible Ministers in the British House of Commons indicate that England appreciates that Canada is doing everything possible not only to assist her Allies but to exert her own utmost in the prosecution of the war. The London Times, the Financial News, and other leading British papers have carried articles or editorials commending Canada's contribution to the Allied cause and her aid to Britain. Prime Minister Churchill and Sir Kingsley Wood have both stated publicly their appreciation of Canada's efforts. L. B. Pearson, recently returned to Canada after five years as counsellor to Hon. Vincent Massey, Canadian High Commissioner to London, said in an interview, "Britain really believes that Canada is making a great contribution in this war."

FINANCIAL UNDERTAKINGS

Direct War Spending

Canada's war spending has steadily increased. In the 1940-41 fiscal year, direct expenditure for war was about \$792,000,000. The amount spent in the first three months of 1941 was about five times as great as the amount spent in the first three months of 1940. The present rate of spending is well over \$1,000,000,000 a year and it is expected that direct war expenditure in the present fiscal year (March 31, 1941, to April 1, 1942) will be approximately \$1,450,000,000—nearly twice as much as the amount spent last year.

Indirect War Spending

In addition to this direct war expenditure, Canada provides Britain with Canadian dollars with which to make war purchases over and above those for which she is able to pay. By repatriating Canadian bonds held in Britain Canada pays debts now which ordinarily would not fall due until some time in the future; and by accumulating Sterling balances Canada, in effect, lends Great Britain money. Up to the end of March of this year the money which Canada in these ways put at Britain's disposal amounted to about \$537,000,000—68·6 per cent of Britain's total deficit with Canada. The net amount which Canada expects to have to provide for this purpose in the present

fiscal year amounts to between \$800,000,000 and \$900,000,-00—the bulk of Britain's estimated deficit with Canada. The exact figure will depend upon the extent to which the United States Lend-Lease Act assists Canadian purchases in the United States on British account.

Total War Spending

Canada's total war spending in the present fiscal year will be considerably more than \$2,000,000,000 and will require between 35 per cent and 40 per cent of the national income, which it is expected will amount to \$5,950,000,000. When the ordinary expenses of all Canadian governments, federal, provincial and municipal, are added, the total with which Canadians have to provide the country during the present fiscal year amounts to about half the national income.

In the coming fiscal year the national income of the United States is expected to exceed \$80,000,000,000. On that basis, Canada's total war spending would be equivalent to an expenditure by the United States for defence and for aid to Britain of about \$30,000,000,000 in a single year.

Financial Policy

The financial policy of the Canadian Government is to pay for the war, as far as is possible, "as it goes". Money is to be raised as far as is practicable by taxing and borrowing from the public and from domestic financial institutions other than banks.

Increase in Tax Revenues

The 1941-42 budget provides for the raising of about 76 per cent more money in taxes in the full fiscal year than was raised in this way in the 1940-41 fiscal year. Here are the figures for the three fiscal years beginning 1939-40:

Total Revenue from Taxes

| 1939-40 | Estimated 1940-41 | Budgeted, 1941-42, for Full Fiscal Year |
|---------------|----------------------|--|
| \$468,271,000 | \$778,290,000 | \$1,369,310,000 |

Increase in Direct Tax Revenues

Direct taxes of all kinds are expected in the present fiscal year to raise more than two and one-half times as

much money as in the last fiscal year. The following are the figures for the three fiscal years, beginning 1939-40; they show the sharp increase in direct taxes since the pre-war period.

Total Revenue from Direct Taxes

| 1939-40 | Estimated 1940-41 | Budgeted, 1941-42, for Full Fiscal Year |
|---------------|----------------------|--|
| \$136,910,000 | \$274,690,000 | \$732,000,000 |

In the 1940-41 fiscal year about five times as many Canadians as in the 1939-40 fiscal year paid income taxes of all kinds. And rates were substantially higher. This year the rates are up again.

On personal income the new graduated rates will begin at 15 per cent on the first thousand dollars of net taxable income instead of 6 per cent or 8 per cent as at present. The National Defence Tax rates, as from July 1st next, will be increased from 2 per cent to 5 per cent and from 3 per cent to 7 per cent.

Other minor changes have been introduced to make the new burden as equitable as possible. The Federal Government, in order to spread the tax load as fairly as possible through all sections of the country, has offered to provide the Provinces with moneys equal to the amount of their personal and corporation income tax collections, if the Provinces will agree to vacate these two tax fields for the duration of the war.

The net result of these changes for the taxpayer in the middle income brackets is that he will have to pay about twice as much income tax on his 1941 income as he paid on what he earned in 1940.

The following table gives some idea of the way in which Federal taxes on personal income (including the National Defence Tax on 1940 and 1941 income) have increased since the outbreak of war:

Tax on Income Paid By a Married Canadian With No Dependents

| Income | Tax on 1939 Income | Tax on 1940 Income | Tax on 1941 Income |
|--------------|-----------------------|-----------------------|-----------------------|
| \$ | \$ | \$ | \$ |
| 1,500..... | 0 | 30 | 75 |
| 3,000..... | 36 | 195 | 400 |
| 5,000..... | 144 | 555 | 1,000 |
| 10,000..... | 781 | 2,070 | 3,080 |
| 50,000..... | 14,351 | 21,390 | 26,965 |
| 100,000..... | 39,299 | 51,300 | 61,875 |

Other further increases in direct taxes are provided in the 1941-42 budget. A greatly increased gift tax is to be introduced, and a Dominion succession duty is to be levied.

Businesses, as well as individuals, are being hit. The minimum rate of corporation tax has been advanced to 40 per cent. This involves changes in the administration of the excess profits tax, which is imposed in war time.

Increases in Indirect Tax Revenue

Indirect taxes of all kinds are expected to raise considerably more money in the 1941-42 fiscal year than they provided in 1940-41. Below are the figures for the three fiscal years beginning 1939-40. They show the steady increase in indirect taxes since the pre-war period.

Total Revenue From Indirect Taxes

| | Estimated 1940-41 | Budgeted, 1941-42, for Full Fiscal Year |
|--------------------------|----------------------|--|
| 1939-40 \$331,361,000 | \$503,600,000 | \$637,310,000 |

New indirect taxes and increases in existing indirect taxes now cut into the income of Canadians in all walks of life. New taxes include a tax of three cents a gallon on gasoline, an excise tax of 10 per cent on travel fares and an excise tax of 20 per cent on the receipts of all places of public entertainment where an admission fee is charged—movie houses, theatres, concert halls, racetracks, sports arenas, etc. Racetrack bets are also taxed.

Increases in existing taxes include a rise in the basic rate on automobiles from 20 per cent to 25 per cent, and increases in taxes on sugar, beer, wine, carbonic acid gas, cigarette tubes, cosmetics and toilet preparations and long-distance telephone calls.

Indirect taxes imposed last year and continued this year include levies on liquor, tobacco, matches, radios, cameras, phonographs, automobiles, and other durable consumers' goods. Customs duties on non-essential imports have been raised since the outbreak of war. Sales tax revenue has increased since the outbreak of war, and the recent budget removed the exemption for the building trades.

It is pointed out in connection with the gasoline tax that the United States Treasury is proposing a Federal tax on gasoline of $2\frac{1}{2}$ cents a gallon. When the difference

between the Canadian and American gallons is considered, this proposed U.S. tax would be equivalent to the new Canadian levy on gasoline.

War Loans and Savings

Since the outbreak of war the Canadian Government has borrowed about \$645,000,000 from the public and from domestic financial institutions other than banks. This money has been raised by the floating of two war loans and by issuing war savings and non-interest bearing certificates to the public. The war loans raised \$500,000,000 in new money and about \$75,000,000 in conversions; to May 30th applications for war savings certificates amounted to \$63,647,492 and \$6,625,000 had been invested in non-interest bearing certificates. The amount of bank borrowing has been limited to safe and reasonable proportions.

The Government is now asking the Canadian people for \$600,000,000, the largest sum it has ever sought to borrow from the Canadian people at any one time. It is expected that this third loan of the present war will, like the first two, be oversubscribed, and the Government has reserved the right to allot all or any part of the oversubscription.

In addition, the Government expects in the present fiscal year to receive about \$200,000,000 in return for war savings certificates and in other forms of citizens' savings.

Balancing the Budget

The total amount which the Canadian government will have to raise for war and ordinary purposes in the present fiscal year is estimated to be about \$2,650,000,000. Of this amount taxes and non-tax revenue will provide about \$1,400,000,000 in the actual fiscal year ending March 31, 1942.

However, in estimating the extent to which the government is paying for the war "as it goes", it should be remembered that money lent to Britain now is covered by the accumulation of Sterling balances, and repatriation, while it imposes a present burden, is not a drain on capital. On this basis the 1941-42 budget provides for the payment of between 73 per cent and 79 per cent of total federal expenditures (war and non-war) for the 1941-42 fiscal year out of revenue—the excess of expenditures over revenue being estimated at between \$365,000,000 and \$515,000,000.

THE WAR AND THE CANADIAN ECONOMY

Economic Expansion

Canada's wartime financial undertakings are the necessary accompaniment of a war program which has caused a marked expansion in the economy of the nation. Industrial output has enormously increased and has still to reach its peak; business activity is up and is expected to rise even further; construction has reached record proportions and there is still much to do; transportation facilities are working diligently to bear the traffic of war; surplus labour has to a large extent been absorbed; the national income has substantially increased, over half the increase being in salaries and wages, and it continues to increase as the war goes on.

But This Is A War Boom

This expansion does not mean that individuals, businesses or the nation as a whole are growing prosperous because of the war. On the contrary, with governments taking nearly three times as much money from the country as in peace time, every one—from the Federal Government down—is feeling the need to retrench in order to help pay for the war. Economic expansion is the result of the insatiable demands of war. It has not produced prosperity; it merely indicates that the country is putting more and more into the war.

Moreover, this economic expansion leaves certain sections of the population without economic benefit; and many individuals and businesses find that the war rather than improving their lot, deprives them of opportunities they previously enjoyed.

The Biggest Big Business in Canada's History

The Federal Government, with a total war outlay for the present fiscal year of well over \$2,000,000,000, is the biggest big business in Canada's history. As the organization charged with the conduct of the war, the one great undertaking which now overshadows all other enterprises in Canada, the Government more than ever before is the custodian of the nation's business. Firms of many kinds from one end of the country to the other are under contract to supply it; the Canadian and British governments have underwritten capital advances of about

\$425,000,000, for industrial plant construction, expansion and equipment; the Canadian Government owns and operates a large number of wartime companies. To an extent undreamed of in Canada's history Canadians, whether they are humble wage-earners paying their small share of the nation's taxes or the directors of large corporations whose services are under contract to the Government, are working to-day for the Government. They are doing this because to work for the Government is to work to help Canada play her part in winning the war.

Wartime Controls

While the war has enormously enlarged the importance of Government enterprise, it has by no means destroyed the importance of individual business undertakings. Indeed, the energy and efficiency of such undertakings have been a major contributing factor to the success which Canada's war program has enjoyed to date.

Nevertheless, the Government has had to assume a measure of control over the Canadian economy in order to get the most out of it and to protect it from the harmful effects of world-wide unrest. Under the War Measures Act, the Munitions and Supply Act and other wartime statutes, the Government has power to regiment the physical and human resources of the nation in any way necessary to the security of the state. Actually, these wide powers have been invoked only where voluntary co-operation has proved faulty or has been necessarily too unco-ordinated to prove effective. Generally speaking, in all phases of its war program, the Government has sought wherever practicable to secure the voluntary co-operation of the persons and interests involved. In the economic sphere, government control and public co-operation have worked together in various measures designed to ameliorate wartime stresses and to provide a maximum war contribution.

Foreign Exchange Control

A supply of foreign exchange, particularly American dollars, is vital to Canada's war program. To ensure this supply and to perform other necessary functions, the Foreign Exchange Control Board was given the necessary powers at the beginning of the war.

Canada normally sells the Sterling resulting from her Empire trade in order to get American dollars to cover

her trade deficit with the United States. But the war has made this arrangement largely impractical. For Britain has needed most of her gold and American dollars for her own war purchases in the United States and so has not been able to continue to convert Canadian Sterling credits into U.S. dollars. Moreover, Britain was able to settle only 31·4 per cent of her deficit with Canada up to March 31, 1941, by transfer of gold, and since December of last year no gold has been transferred from Britain to Canada.

At the same time, as was to be expected, Canada's trade deficit with the United States has greatly increased. In 1939, it was \$117,000,000; in 1940 it jumped to \$301,000,000; and in the present fiscal year, under normal conditions it would reach an estimated \$478,000,000.

Because of these increased purchases Canada, since the beginning of the war, has been faced with a widening differential between the amount of U.S. dollars she needs and the supply she is able to command. For, under the terms of the U.S. Neutrality Act, Canada's war purchases in the United States must be paid for in cash in U.S. dollars.

Foreseeing this situation, the Foreign Exchange Control Board did the only thing possible under the circumstances. It took steps to conserve the American dollars in Canadian possession and to increase that supply where possible. All foreign exchange holdings were ordered turned over to the Board, which gave Canadian dollars in return. Through a system of licensing all Canadian exports to non-Empire countries were made to produce United States dollars. Through other government and non-government agencies, every encouragement was given to the American tourist trade, one of Canada's most fruitful sources of United States dollars. And, conversely, a regulation was introduced making it impossible for Canadians to obtain funds for travel in the United States, except for urgent and necessary reasons.

Travel in the United States is not the only pleasure of which Canadians have been deprived by the need to conserve foreign exchange. Measures to conserve foreign exchange include the imposition of prohibitive customs duties on a large range of non-essential imports from non-Empire countries and other regulations designed to reduce the number of non-essential products coming in

from foreign countries. The effect of this has been that Canadians have had to do without imported luxuries in order to conserve foreign exchange.

The exchange provided in these ways, combined with that accruing from other miscellaneous sources, has provided Canada with a pool out of which foreign exchange is produced to pay for imports, to service Canada's debt payable in foreign currencies and to cover other necessary disbursements of foreign exchange. In order that Canada may continue to purchase goods in the United States on a scale commensurate with the demands of her war program, it has been necessary to continue the methods for conserving foreign exchange outlined above, even though the Hyde Park Declaration has established a principle which, it is hoped, will result in an easing of Canada's foreign exchange position.

The Foreign Exchange Control Board has also exerted wartime controls the effect of which has been to stabilize the Canadian dollar, a condition which is vital to Canadian trade, and to prevent disorderly marketing of securities or an outflow of capital from Canada—developments which threaten a belligerent nation, particularly when the fortunes of war go against her.

The Necessaries of Life

At the outbreak of war the Government took immediate steps to assure an adequate and continuous distribution of the necessities of life at reasonable prices, to eliminate hoarding and profiteering, and to curb those who otherwise might turn national needs into personal profits. On the day that Britain declared war the Wartime Prices and Trade Board was appointed. The Board is endowed with wide powers permitting, where necessary, an adequate control of the production and distribution of the necessities of life. The chief function of the Board is to protect the consumer from exploitation.

The Board has investigated the distribution and sale of all important commodities, and with the help of technical advisers and administrators has endeavoured to forestall shortages wherever and whenever possible. In certain cases it has been found necessary to fix prices for a period of time, but the only maximum price now in operation is that on rents in crowded centres. In most cases, the Board has been able to prevent unjustified

price increases by creating an enlightened and effective public opinion, and by taking all possible steps to ensure ample supplies.

The difficulties faced by the Board have been many. Depreciation of the Canadian dollar, disorganized shipping, tremendous increases in ocean freight rates and war insurance costs, and substantial increases in taxes on many commodities, have all affected the prices of certain essential products. Nevertheless, by careful planning and co-operation it has been possible to maintain an adequate and uninterrupted flow of supplies on to the Canadian market; and the cost of living since the outbreak of war has risen only about 7.7 per cent, an increase which is spread fairly evenly through all sections of the country.

The Stuff of War

To make the weapons of modern war an adequate supply of machine tools and essential raw materials is vitally important. To take all possible steps to ensure such a supply is the function of the Controllers of wartime industry. Machine tools, small tools, abrasives, electric power, oil, coal, timber, steel, iron, aluminum, nickel, zinc, tin, copper, chromium, lead, mica, asbestos, and other metals—these are the tools and raw materials Canada most urgently needs to make weapons and engines of war for her armed forces and for Britain.

Many of these things are made or produced in Canada; others are imported in greater or lesser degree. In some cases the demand is very heavy and taxes the ingenuity of those charged with supplying them. In other cases, the situation is "easy". But in almost every case careful measures have had to be taken to ensure a continuing supply.

These measures are mainly three. First, increasing domestic supply, and foreign supply where possible; second, curbing the use of such materials for non-war purposes; third, rigidly licensing the export of such materials. The Controllers, with the assistance and co-operation of industry and of business, have succeeded in a variety of cases in achieving these ends; and their unremitting efforts are continuing.

The production of machine tools increased markedly in 1940 and recent investigations and remedial measures have resulted in a distinct betterment in production and

efficiency. The production of metals in Canada in 1940 reached an all-time high; and efforts are constantly being made to expand production further.

A striking example of the curbing of non-war use of essential materials is the voluntary reduction in non-war consumption of aluminum from 1,000 tons a month to 25 tons a month. Various orders have gone out from the Controllers' offices from time to time, the effect of which has been to reduce the use of machine tools for non-war purposes or to lessen the consumption of essential raw materials. New models for automobiles, radios, refrigerators, etc., are "taboo". Electric power has been conserved by daylight saving. A definite price basis has been established for lumber and mill-work. Manufacture of new automobiles for civilian use has been curbed by a series of measures. Steps have been taken to conserve valuable scrap metals. Steel and other metals and materials are subject to priorities which are administered by the Priorities Branch of the Department of Munitions and Supply. The recent budget limits the erection of plants, the installation of equipment and the construction or repair of buildings to projects licensed by the Priorities Branch of the Department of Munitions and Supply. The aim is to limit the use of labor, material and foreign exchange to the provision of war and essential services.

Co-operation with the United Kingdom and with the United States in this sphere of the war program is very close, and every effort is being made to co-ordinate the efforts of the three countries as effectively as possible.

Labour and the War

Labour is also vitally important in the production of the weapons of war. The Government has taken steps to ensure an increasing labour supply and to establish good wartime relations between management and labour.

Between 330,000 and 350,000 additional men have been absorbed into industrial employment since the outbreak of war. Thousands more are being trained every month in technical and plant schools throughout the country. As many as 100,000 may be trained in this way in the course of the year. Of these, about 80,000 will be available for war industries.

In November, 1939, the provisions of the Industrial Disputes Investigation Act were extended to cover disputes between employers and employees engaged in war work.

In June, 1940, an Order in Council was passed enunciating certain principles for the avoidance of labour unrest during the war and a National Labour Supply Council, equally representative of management and workers, was established. In December, 1940, a wartime wage policy, taking the 1926-29 level as the norm and suggesting that any increases be in the form of wartime cost-of-living bonuses, was adopted.

Strikes have not seriously interfered with Canadian war production. The year 1941, in particular, started off well—with a time-loss through strikes in the first three months that was 50 per cent less than the time-loss in the first three months of 1940.

A recent strike in a Hamilton steel plant, however, precipitated a situation which called for strong action on the part of the Government. And strong action was taken. A dispute between the management and the workers was referred to a conciliation board, as is required by law. However, the management refused to accept the majority finding of the board, and the workers went on strike. Without delay the Government, invoking the powers it possesses, sent in a controller to take over management of the plant. The next morning the plant was producing and the workers were back at their jobs.

THE UNITED STATES AND THE CANADIAN WAR EFFORT

Canadian Purchases in the United States Increased Because of War

The United States has been a source of strength to Canada in the prosecution of the war. Canada buys many essential war materials in the United States and since the outbreak of hostilities has bought them in increasing quantities. In spite of a reduction in the amount of "non-essential" commodities coming to Canada from the United States, Canada's imports from that country have increased greatly since the outbreak of war. In 1939 they were valued at \$497,000,000; in 1940 they soared to \$744,000,000; in the present fiscal year they are expected to reach \$953,000,000, of which \$428,000,000 will be for war purchases. At the same time Canada's exports to the United States this fiscal year have been estimated to run to \$475,000,000—which would leave Canada with a trade deficit with the United States of about \$478,000,000.

The Hyde Park Declaration

The Hyde Park Declaration has established a principle which, it is hoped, will assist Canada to maintain and increase her war purchases in the United States. As a result of the agreement, it is hoped that Canada will be able to sell to the United States additional defence materials and some articles of war to the value of between \$200,000,000 and \$300,000,000. In addition, the United States is expected to lend-lease to Great Britain war materials which Canada would normally purchase for Britain in the United States. In the present fiscal year such purchases are expected to run to over \$200,000,000. Canada, herself, is not taking advantage of the Lend-Lease Act, as long as she can find the U.S. dollars with which to pay cash.

Canada Must Still Conserve Foreign Exchange

According to Finance Minister J. L. Ilsley, however, the Hyde Park Declaration, though a magnificent contribution to the common struggle in which Canada and the United States are engaged, does not remove all need for the conservation of foreign exchange. Mr. Ilsley stated in his recent budget speech that it is difficult to make any precise quantitative estimate of the contribution which the agreement may make to reducing Canada's shortage of United States dollars. In the first place, the amount of the additional war purchases by the United States in Canada will depend on the practicable limits of production and integration, and it will take some months for them to reach their expected volume. In the second place, administrative difficulties may be encountered which will make it hard to apply lend-lease procedure immediately to all items purchased in the United States which are components of British war orders in Canada. The most reasonable estimates of the magnitude of these two factors still leave a considerable deficit in Canada's balance of payments with the United States, Mr. Ilsley concluded.

Because of this situation the Canadian Government has reluctantly decided not to abandon the prohibition on travel in the United States by Canadians for other than business, health or educational reasons. As heretofore, of course, any Canadian can visit American relatives or friends who provide the United States dollars for the purpose.

Because of this situation, also, the Canadian Government hopes that many Americans will visit Canada this year, not only in order that they may spend American dollars here which will be re-expended in the United States to purchase war supplies for Canada, but also in order that the traditionally neighbourly relations between the United States and Canada may continue.

Further Significance of Hyde Park Declaration

The Hyde Park Declaration has a significance over and beyond its financial importance to Canada. The net result of the Declaration, it is expected, will be that the United States and Canada, each concentrating on the materials of war which it can produce best and most quickly, will become one strong team, working and producing according to a carefully planned program which will ensure the most rapid possible supply of war materials to Britain and other embattled democracies and the most efficient provision of defence articles for North America.

War equipment which Canada is able to export to the United States under the terms of the Hyde Park Declaration includes certain types of small arms, some guns and ammunition, certain explosives and chemicals, certain armed fighting vehicles, corvettes and minesweepers, aluminum and certain other metals and materials. There are in addition certain types of clothing and textiles, certain leather, rubber and timber products and certain secret devices in which Canada could probably make an important contribution if these were desired.

Discussions on Economic Co-operation by Canadian and United States Officials

The Material Co-ordination Committee of the United States and Canada has recently been appointed and has met. It consists of two United States and two Canadian representatives, all government officials and experts in their fields, whose task is to collect and exchange information of raw material supplies of the United States and Canada, in order that all sources may be made known to those responsible for war production. The close and expert attention which the problem of integration is receiving from this Board and from other officials, augurs well for the success of a continental supply policy.

The United States and Canadian Home Defence

The United States has in other ways been of assistance to Canada's war effort. Since the Ogdensburg Agreement of August, 1940, the Permanent Joint Board on Defence has been in operation and it has now worked out its plans for the defence of North American coasts against any possible attack.

Americans in the Canadian Armed Forces

An even more direct and striking American contribution is the arrival in Canada of American volunteers for the Canadian armed forces. A large number of Americans have enlisted in the R.C.A.F. and many American fliers are acting as instructors for the Air Training Plan. Many Americans are serving with the Canadian Army.

VOLUNTARY CONTRIBUTIONS AND SERVICES

Canadians have responded enthusiastically to the many calls for voluntary contributions of money and of services which have been issued since the outbreak of war. Over 1,700 organizations are recognized by the War Charities Administrator. Contributions to these funds total many millions of dollars. The recent Canadian War Services Fund drive passed its \$5,500,000 objective by many hundred thousands of dollars. In addition to the Red Cross with its various beneficent activities and the Canadian War Services Fund, the member charities of which are devoted to the welfare of the armed forces, many different types of charitable organization are being helped by Canadians to play their part in the war. There are funds to assist the victims of enemy bombing, to aid refugees, evacuees and specially deserving groups such as British fire fighters. There are funds to purchase war planes, ambulances and mobile kitchens.

Thousands of Canadians are giving their time and energy to voluntary war work. Women in all parts of the country, in homes, clubs and churches, devote themselves each week to providing clothing and other material for the Red Cross and other organizations. A nation-wide salvage campaign, carrying on the work begun earlier by many local communities, is encouraging the collection of salvable material for munitions manufacture and for charitable purposes.

In a variety of other ways thousands of Canadians are unobtrusively devoting their time and energy to the prosecution of the war. Over 100 "dollar-a-year" men have been brought to Ottawa to occupy key positions. The head of one of the world's greatest chemical industries, the president of one of Canada's leading banks, and the chief of an outstanding meat-packing firm, have all left their businesses to devote themselves to facilitating the flow of supplies to Britain from this continent. Other industrial, commercial and financial men are helping in similar ways. For example, the Canadian Manufacturers' Association and the Canadian Chamber of Commerce have undertaken to assist the Department of Munitions and Supply. Scientists and technical experts in the National Research Council and in universities have placed their skill at the disposal of the country. An outstanding example in this connection was Sir Frederick Banting, who lost his life in a plane crash in Newfoundland when on his way to Britain on a mission of high military and national importance. Newspapermen, professors, and hosts of others, both prominent and obscure, are coming to the aid of their country in the ways best suited to their talents and connections.

Thousands of Canadians and many Americans have sent about a million and a half dollars to the Canadian Government in the form of "free gifts" to help the war effort.

HOME DEFENCE

Since the outbreak of war Canada has taken steps greatly to strengthen the defence of her coasts and is co-operating with the United States in joint defence measures. Both Canadian coasts are guarded by anti-submarine devices, naval and air patrols operating from coastal bases, coastal and anti-aircraft guns and large concentrations of troops. Over one hundred air fields have been built under the Air Training Plan, strategic air bases have been built in coastal areas, and Canada will spend \$20,000,000 this year on additional land and sea air bases of strategic importance, including a string of air fields designed to give military planes access to Alaska. Troops guard vital points throughout the country. In many areas local authorities have organized Civilian Defence and A.R.P. units.

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